



PROSPERITY & WEALTH  
PRESENTS:

UNDERSTANDING  
FINANCIAL LITERACY

# UNDERSTANDING FINANCIAL LITERACY

## **Essential Money Management Skills**

Financial literacy includes learning budgeting, saving, and investing to manage money effectively for a secure future.

## **Informed Financial Decisions**

The course empowers individuals to make smart financial choices and avoid pitfalls like accumulating unnecessary debt.

## **Planning for the Future**

Topics like credit scores, banking, and goal setting are covered to help participants prepare for long-term financial success.

# MODULE 4: UNDERSTANDING DEBT

MANAGING AND ELIMINATING DEBT

# TYPES OF DEBT

## ✓ Good Debt

Good debt is **debt that helps you build wealth or increase your earning potential**. It's usually seen as an investment in your future.

### Examples:

- **Student loans:** If they fund a degree that significantly boosts your income.
- **Mortgages:** Buying a home can build equity over time.
- **Business loans:** Used to start or expand a profitable business.
- **Real estate investment loans:** Borrowing to buy rental property that generates income.

### Characteristics:

- Reasonable interest rates
- Purpose is to generate long-term value
- Can increase net worth over time

## ✗ Bad Debt

Bad debt is **debt that doesn't generate income or value** and is often used to purchase depreciating assets or fund lifestyle choices.

### Examples:

- **Credit card debt:** Especially if used for non-essential items or if interest isn't paid off monthly.
- **Payday loans:** Extremely high interest and fees.
- **Auto loans (in some cases):** Cars depreciate quickly, and high-interest loans make them worse.
- **Buy now, pay later services (if misused):** Easy to overspend and fall into a debt cycle.

### Characteristics:

- High interest rates
- Used for consumption, not investment
- Doesn't improve financial position

# HOW INTEREST RATES WORK

## Simple Interest

Interest is only calculated on the original amount (principal).

*"It stays the same every period"*

Example Use cases:

Car Loans & Short-term loans

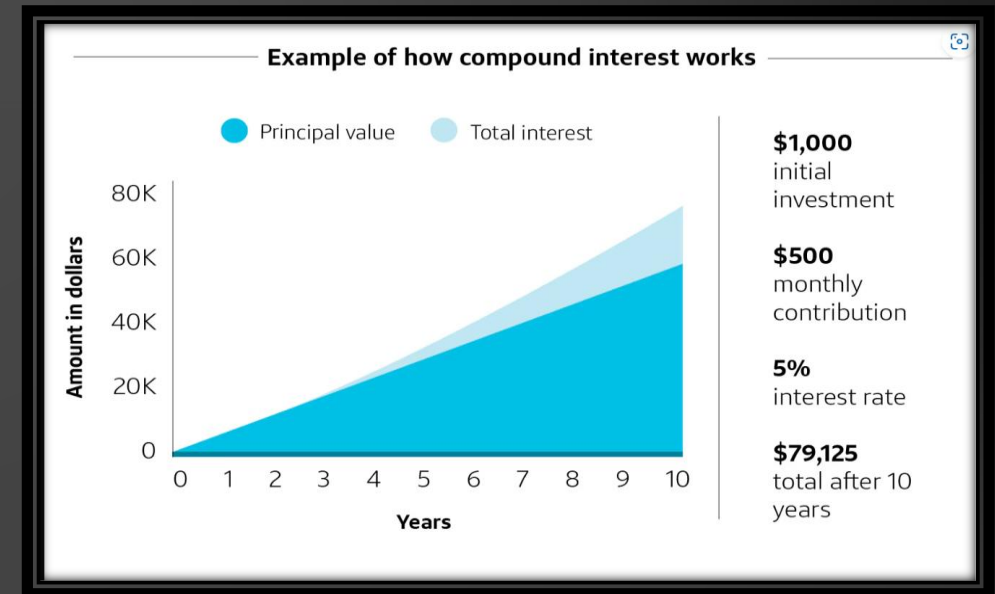
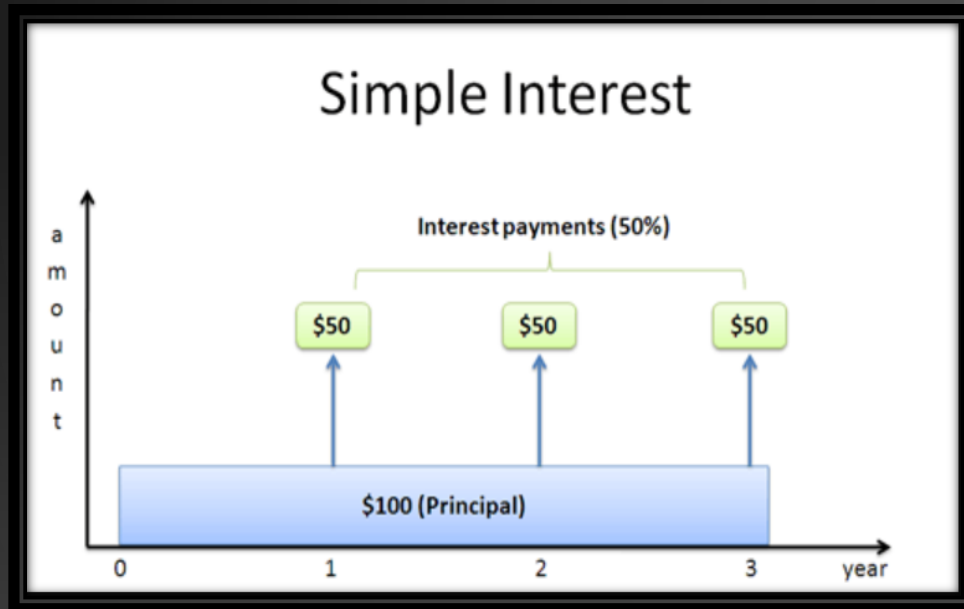
## Compound Interest

Interest is calculated on the principal PLUS any interest already earned.

*"It "compounds" or grows faster over time."*

Example use cases:

Savings, Investments, & Mortgages



# SNOWBALL METHOD: PROS & CONS



## **Momentum and Motivation**

Paying off smaller debts first provides visible progress and boosts psychological motivation for continuing debt repayment.

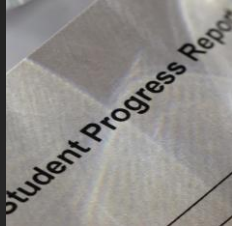
## **Interest Cost**

This method might result in paying more interest overall since larger, high-interest debts are paid later.

## **Simplicity and Ease**

The snowball approach is easy to manage, making it ideal for individuals seeking straightforward financial strategies.

# DEBT AVALANCHE: PROS & CONS



## **Interest Rate Prioritization**

The debt avalanche method prioritizes debts with the highest interest rates, reducing total interest paid over time.



## **Faster Debt Elimination**

By reducing high-interest debts first, individuals can eliminate their overall debt faster and save money.



## **Potential Motivation Challenges**

Smaller debts may linger, which can feel less motivating for some individuals compared to clearing small balances quickly.

## QUESTION

- Ask yourself, which method would you use to pay off debt, and why?

# UNDERSTANDING CREDIT SCORES

## Credit Score Importance

A credit score is a numerical rating that reflects your creditworthiness and influences loan approvals and interest rates.

## Credit Report Details

Credit reports include your borrowing history, payment habits, and outstanding debts, offering a comprehensive view of your financial behavior.

## Reviewing for Errors and Fraud

Regularly checking your credit report helps identify errors and prevent fraud, maintaining a healthy financial profile.

### Typical Credit Score Range

Most common system: FICO Score, which ranges from 300 to 850:

Score Range	Rating	What It Means
800–850	Excellent	Very low risk; best rates & approvals
740–799	Very Good	Low risk; good approval odds
670–739	Good	Average borrower
580–669	Fair	Higher risk; may pay higher interest
300–579	Poor	High risk; hard to get approved

### What Makes Up Your Credit Score?

Factor	Weight (%)	What It Means
Payment History	35%	Have you paid bills on time?
Credit Utilization	30%	How much of your credit limit you're using
Length of Credit History	15%	How long your accounts have been active
New Credit	10%	Number of recent applications and accounts opened
Credit Mix	10%	Variety of credit types (loans, cards, etc.)

# WHY CREDIT SCORES MATTER



Lenders use it to decide if they'll lend to you



Interest rates: Higher scores = lower interest rates



Renting an apartment: Landlords may check your score



Employment: Some employers check it during hiring



Utility deposits: A low score may mean paying a security deposit

- **Tips to Improve Your Credit Score**

- ✓ **Pay all bills on time**
- ✓ **Keep credit card balances low (under 30% of your limit)**
- ✓ **Don't open too many new accounts at once**
- ✓ **Keep old accounts open to lengthen credit history**
- ✓ **Check your credit report for errors (free at [AnnualCreditReport.com](https://www.annualcreditreport.com))**

# MODULE SUMMARY

## Topics Covered:

- ✓ Types of Debt
- ✓ How Interest Rates Work
- ✓ Managing Debt
- ✓ Credit Scores and Reports

❖ **Key Takeaways:** Understand your debt, choose the right repayment method, and keep an eye on your credit score.

# Get in Touch!

Have questions about the strategies in this presentation, or want to share your success story? I'd love to hear from you.

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